



RESEARCH COMPENDIUM

# Prepping for the New Session

**End-of-Summer Reading for State Budget Analysts**

*Norton Francis, Tracy Gordon, and Megan Randall*  
*August 2015*





## ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Their objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.

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# Executive Summary

Founded in 1968 to understand the problems facing America's cities and assess the programs of the War on Poverty, the Urban Institute brings decades of objective analysis and expertise to policy debates. Every year, the Urban Institute produces hundreds of reports, briefings, webcasts, and blog posts on a variety of issues, including the social safety net, taxes, health policy, labor markets, housing, and family and neighborhood well-being. Urban Institute scholars blend academic rigor with on-the-ground collaboration, often teaming with policymakers, community leaders, practitioners, and the private sector to diagnose problems and find solutions.

In this publication, Urban's State and Local Finance Initiative, joined by other Urban researchers, has selected the latest evidence-based work with direct relevance for analysts charged with crafting and deliberating over state budgets. The research contained in this bulletin will help budget analysts evaluate agency requests, make recommendations, and respond to questions from their governors and legislatures. The topic areas represented are as follows:

- ◉ **Medicaid and the Affordable Care Act:** estimates of the costs and benefits of Medicaid expansions under the Affordable Care Act as well as other options to reduce program costs and increase efficiency
- ◉ **Criminal justice and corrections:** trends in prison population aging, mental health, and recidivism as well as potential cost savings and improved outcomes identified through the Justice Reinvestment Initiative being piloted in several states
- ◉ **Social safety net programs:** how participant behavior and administrative practices affects the efficacy of low-income safety net programs
- ◉ **Public employee pensions:** state pension plan grades and recommendations to improve retirement security as well as recruit and retain the best employees to the public sector
- ◉ **State finance and tax policy:** reports on gas taxes, federal-state tax interactions, and the relationship between taxes and growth as well as new web tools to track and analyze state employment, wages, housing, and taxes
- ◉ **Pay for success and performance measurement:** how to measure performance and effectively collaborate with private enterprise

- ◉ **Demographic and housing trends:** interactive web tools and insights into how population growth, immigration, housing, and urbanization trends can affect budget planning

We hope you find this compendium useful and welcome your suggestions for future updates. We encourage you to visit <http://www.urban.org/> for additional materials, including expert interviews and conference presentations. You can also visit *Urban Wire*, the Urban Institute blog, and *TaxVox*, the Tax Policy Center blog, for timely reflections on current events.

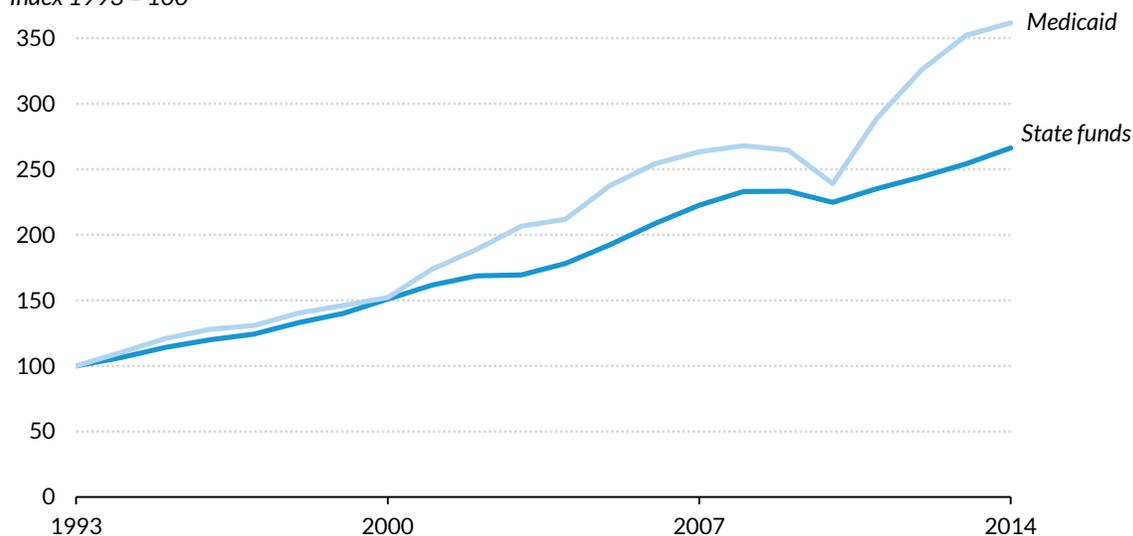
# Medicaid and the Affordable Care Act

Medicaid represented 15 percent of state financed spending in fiscal year (FY) 2014, the second-largest budget category and the fastest growing (figure 1).<sup>1</sup> As a result, policymakers are seeking cost-containment solutions while trying to maintain residents' access to quality care. Among the issues confronting budget analysts this fall will be continued rising health care costs as well as reduced federal-matching funds (though still at a rate of over 90 percent) starting in federal FY 2017 for the Affordable Care Act Medicaid expansion.

FIGURE 1

## Growth in State and Medicaid Spending

Index 1993 = 100



Source: National Association of State Budget Officers.

Notes: State funds refer to general and other state funds. Medicaid funds are 15 percent of state funds in 2014.

## Web Tools and Interactive Features

Track enrollment in the health insurance marketplaces with the “[Marketplaces Make Significant Progress in 2015](#)” feature. It contains data on subsidized and unsubsidized plan selections for each state and will continue to be updated with the latest enrollment figures as they are released.

The [Health Reform Monitoring Survey](#) is a quarterly survey of the nonelderly population that is exploring the value of cutting-edge Internet-based survey methods to monitor the Affordable Care Act (ACA) before data from federal government surveys are available.

## Key Reports

### [Medicaid Expansion, Health Coverage, and Spending: An Update for the 21 States that Have Not Expanded Eligibility](#)

*Matthew Buettgens, John Holahan, and Hannah Recht | April 2015*

The 21 states choosing not to expand Medicaid as of April 2015 will forgo \$472 billion in federal funds from 2015–24. The collective 10-year state cost to expand Medicaid, by comparison, is \$38 billion according to estimates based on the Urban Institute Health Insurance Policy Simulation Model. Urban researchers found that expanding Medicaid would result in 4.3 million fewer uninsured residents in 2016, and the savings from reduced levels of uncompensated care would offset the state cost of expansion by 13–25 percent. Moreover, these estimates do not assess the comprehensive impact of Medicaid expansion on state budgets, since some effects can only be quantified with state-specific data. If those factors were taken into account, the state budget effects of expansion would be even more favorable than the Urban model suggests. This report cites three additional mechanisms by which expanding Medicaid improves state budgets: (1) the enhanced federal-match rate available to some pre-ACA eligibility groups, such as low-income adults with disabilities; (2) the ability to shift formerly non-Medicaid services to Medicaid, leveraging the new federal funding stream; and (3) the increase in state revenues that results from the boom in economic activity following an influx of federal dollars.

### [The Effects of the Medicaid Expansion on State Budgets: An Early Look in Select States](#)

*Stan Dorn and Norton Francis | March 2015*

This study analyzes the state budgetary effects of Medicaid expansion in Connecticut, New Mexico, and Washington. Early evidence shows state savings and revenue gains, despite limited costs resulting from expansion. Of the study states, only Washington had conducted an analysis of expansion's net fiscal effect, finding expansion yielded net state budget gains. This is true even for projected future years when states pay 10 percent of the costs for newly eligible adults. (As compared with states currently not paying for any of it.) All study states reported savings within Medicaid programs, as beneficiaries who otherwise would have qualified for pre-ACA Medicaid categories at the state's regular match instead enrolled in the new expansion group and were eligible for the higher ACA-enhanced match rate

(and therefore reduced state costs). Study states also experienced savings in other areas of the state budget beyond Medicaid. All three study states experienced savings in behavioral health programs, for example, and two of the study states also experienced budget savings or offsets for corrections. Federal Medicaid funding pays for inpatient care that prisoners receive off prison grounds; by eliminating pre-ACA categorical limits, expansion greatly increases the number of inmates who qualify for Medicaid. Some states directed savings to their general funds while others reinvested the savings in behavioral health and other programs, often to compensate for earlier cutbacks. The impact on state revenue, as monitored by budget officials, was primarily reflected in increased provider and premium taxes. A state study in New Mexico analyzed the economic activity resulting from expansion and found increased state general revenue.

### **Estimating Federal Payments and Eligibility for Basic Health Programs: An Illustrative Example**

*Stan Dorn and Jennifer Tolbert | December 2014*

Some states are considering whether to adopt the Basic Health Program (BHP) option permitted under the ACA, which allows states to enroll consumers with incomes at or below 200 percent of the federal poverty level into state-contracting standard health plans that provide coverage comparable to plans in the health insurance marketplace. To operate BHPs, states receive federal funding equal to 95 percent of the premium tax credits and cost-sharing reductions that BHP enrollees would have received if they had been covered through plans in the marketplace. This paper informs state-level analysts about the characteristics of BHP-eligible populations in their state and shows how states can use that information to estimate the federal payment they will likely receive per average BHP-eligible resident. Researchers produced estimates of the BHP-eligible population in each state with Urban's Health Insurance Policy Simulation Model; they also use a concise methodology to estimate BHP payment per eligible resident. The state of Washington, for example, can expect to receive an average of approximately \$4,366 per BHP-eligible resident for 2015. This method provides a good starting point for estimating the amount that a state would receive from the federal government if all BHP-eligible consumers were equally likely to enroll, allowing states to compare federal payments to the cost of providing BHP coverage. Other items that will affect the total state fiscal impact of a BHP include the plan's overall cost, the type and number of consumers who actually enroll in the program, and the potential state savings in other budget items from adopting the BHP option.

## Integrating Health and Human Services Programs and Reaching Eligible Individuals under the Affordable Care Act: Final Report

*Stan Dorn | February 2015*

Integrating enrollment, retention, and determination of eligibility for health and human services programs can reduce administrative costs while improving program integrity and consumer experience. With funding from the ACA, states have implemented three successful approaches to integrating health and human service programs. First, states can base eligibility for one program on data from another, as Louisiana and South Carolina do in their Express Lane Eligibility programs. Second, states can unify the administration of multiple programs, as in Utah where integration has increased the caseload capability of a single worker by 53 percent. Third, state agencies can proactively coordinate outreach and enrollment, like in Minnesota where public employees manually enroll clients in Medicaid based on their records from other state programs. This report finds that a state can recoup initial IT investments over time through administrative cost savings. Under Utah's newly integrated health and human services model, caseloads rose 12.3 percent while total operating costs fell 9.6 percent from 2009 to 2010. In Louisiana and South Carolina, Express Lane Eligibility initiatives enroll children in Medicaid based upon receipt of SNAP benefits. These programs have covered more than 20,000 and 92,000 uninsured children and produced annual net administrative savings of \$1 million and \$1.6 million, respectively, by automatically renewing health coverage based on a beneficiary's receipt of SNAP. The ACA provides a 90 percent federal match for state investments in Medicaid eligibility systems and has extended an important funding provision allowing human service agencies to benefit from investments in system modernization without having to share in the cost. This funding provision will extend to December 31, 2018.

## Potential Medicaid Cost Savings from Maternity Care Based at a Freestanding Birth Center

*Embry M. Howell, Ashley Palmer, Sarah Benatar, and Bowen Garrett | September 2014*

Medicaid pays for about half the births in the United States at very high cost. This study finds that delivering babies at freestanding birth centers, rather than in hospital facilities, could save Medicaid an average of \$1,163 per birth (in 2008 dollars), or \$11.6 million per 10,000 births per year. This would constitute a 16 percent reduction in cost per pregnancy. This paper by Urban Institute experts employs data from a previous study comparing the maternal and infant health outcomes of women delivering in a birth center versus a demographically comparable group delivering in a usual care hospital setting. The authors control carefully for medical risk selection. Using these data and a variety of measures of national Medicaid costs, this paper estimates national cost-savings to Medicaid if low-risk obstetrical care was provided in birth centers. The study attributes these cost savings to (1) the lower cost of birth

center facilities compared with hospital facilities; (2) the lower cost of services rendered by midwives compared with hospital care providers; and (3) the lower rate of cesarean sections at birth centers. A 2009 survey found that only 30 of 44 responsive states covered deliveries at birth centers under Medicaid. Subsidizing care at birth centers, or promoting changes to hospital care so as to replicate the cost-saving elements of the birth center model, could produce notable savings for the Medicaid program, a key driver of state general fund expenditures.

### **Appointment Availability after Increases in Medicaid Payments for Primary Care**

*Daniel Polsky, Michael Richards, Simon Basseyn, Douglas A. Wissoker, Genevieve M. Kenney, Stephen Zuckerman, and Karin V. Rhodes | March 2015*

Budgeting is about outcomes as much as it is cost, and reducing spending can make a program less efficient if the service provided declines precipitously. This study, published in the *New England Journal of Medicine* (and available on request from the authors), provides early evidence that increased Medicaid reimbursement to primary care providers, as temporarily required by the ACA, is associated with improved appointment availability among participating Medicaid providers. The authors of the study measured availability and waiting times for appointments in 10 states before and after the provider rate increase went into effect using simulated patient calls to physician offices. A 10 percent increase in provider reimbursement was associated with an increase of 1.25 percentage points in appointment availability. Appointment waiting times, moreover, remained stable over the two time periods, suggesting no undesirable tradeoffs between appointment availability and wait times.. Additional research has shown that the average national Medicaid reimbursement rate to primary care physicians would fall 43 percent in 2015 if all states let the reimbursement payment increase expire. Only 15 states, however, planned to maintain reimbursement rates after the federal government defunded the increase. Moreover, in the 24 states that planned to discontinue the payment increase, there would be an even larger reduction of 47 percent. This study does not provide information on whether increased reimbursement rates have any effect on provider participation in the Medicaid network. However, it does suggest that higher provider reimbursements achieve the intended goal of increasing access to appointments for new Medicaid patients.

## **Additional Reading**

### **Trends in Prescription Drug Spending Leading Up to Health Reform**

*Fredric Blavin, Timothy A. Waidmann, Linda J. Blumberg, and Jeremy Roth | May 2014*

## **Racial/Ethnic Differences in Uninsurance Rates Under the ACA: Are Differences in Uninsurance Rates Projected to Narrow?**

*Lisa Clemans-Cope, Matthew Buettgens, and Hannah Recht | December 2014*

## **An Estimated \$84.9 Billion in Uncompensated Care Was Provided in 2013; ACA Payment Cuts Could Challenge Providers**

*Teresa A. Coughlin, John Holahan, Kyle Caswell, and Megan McGrath | May 2014*

## **Examples of Promising Practices for Integrating and Coordinating Eligibility, Enrollment and Retention: Human Services and Health Programs under the Affordable Care Act**

*Stan Dorn, Sarah Minton, and Erika Huber | September 2014*

## **Opportunities under the Affordable Care Act for Human Services Programs to Modernize Eligibility Systems and Expedite Eligibility Determination**

*Stan Dorn and Rebecca Peters | September 2014*

## **The ACA's Basic Health Program Option: Federal Requirements and State Trade-Offs**

*Stan Dorn and Jennifer Tolbert | December 2014*

## **CHIPRA Express Lane Eligibility Evaluation: Case Study of Louisiana's Express Lane Eligibility**

*Stan Dorn, Margaret Wilkinson, and Sarah Benatar | October 2014*

## **State Variation in Hospital Use and Cost of Firearm Assault Injury, 2010**

*Embry M. Howell, Sam Bieler, and Nathaniel Anderson | August 2014*

## **Children Eligible for Medicaid or CHIP: Who Remains Uninsured, and Why?**

*Genevieve M. Kenney, Jennifer M. Haley, Nathaniel Anderson, and Victoria Lynch | April 2015*

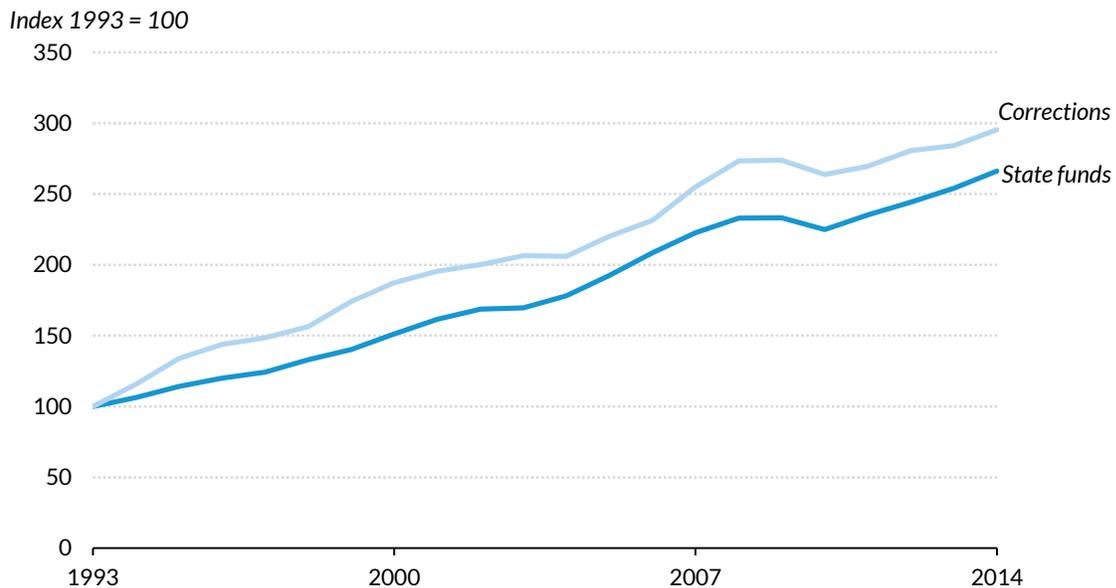
## **Evaluation of the Medicaid Health Home Option for Beneficiaries with Chronic Conditions: Annual Report - Year Two**

*Brenda C. Spillman, Elizabeth Richardson, Anna Spencer, and Eva Allen | June 2014*

# Criminal Justice and Corrections

State governments spent \$54 billion in 2014 on corrections, 4 percent of state-financed expenditures (figure 2).<sup>2</sup> Reining in these costs is a priority for state governments seeking to maintain budget control while accommodating growth in other budget categories, such as education and Medicaid. Moreover, though some programs like Medicaid carry a hefty federal funding match, states foot the bill for 98 percent of corrections spending with their own funds, providing an even greater incentive for cost containment.<sup>3</sup> Urban Institute’s Justice Policy Center has researched several evidence-based options to control costs in the criminal justice system.

**FIGURE 2**  
**Growth in State and Corrections Spending**



**Source:** National Association of State Budget Officers.

**Notes:** State funds refer to general and other state funds. Corrections funds are 4 percent of state funds in 2014.

# Key Reports

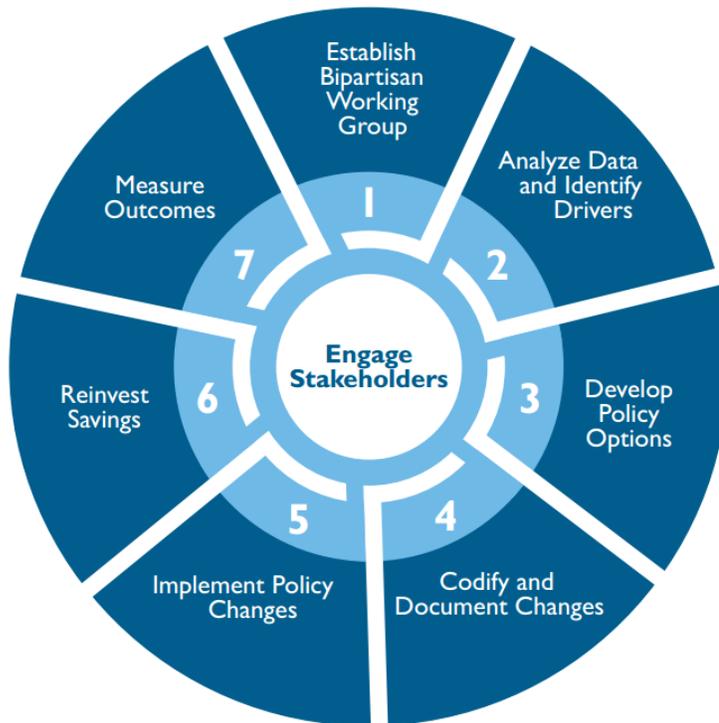
## Justice Reinvestment Initiative State Assessment Report

*Nancy La Vigne, Sam Bieler, Lindsey Cramer, Helen Ho, Cybele Kotonias, Deborah Mayer, David McClure, Laura Pacifici, Erika Parks, Bryce Peterson, and Julie Samuels | January 2014*

Seventeen states participating in the Justice Reinvestment Initiative (JRI) are implementing a data-driven approach to enhancing public safety and managing their corrections and supervision populations. Funded by the Bureau of Justice Assistance, US Department of Justice, JRI provides state and local governments with intensive and targeted technical assistance to identify and implement evidence-based policies to reduce correctional populations and produce system-wide cost savings. South Carolina, for example, estimated FY 2014 savings of approximately \$6.2 million from implementing JRI reforms, and Kentucky saw more than \$29 million in estimated savings over two years from its mandatory supervision program. The JRI model (figure 3) is built on a seven-step process: (1) establish a bipartisan working group; (2) analyze data and identify population and cost drivers; (3) develop policy options; (4) codify and document changes; (5) implement policy changes; (6) reinvest savings; and (7) measure outcomes. JRI states have identified multiple population and cost drivers in their criminal justice systems, such as supervision revocations, insufficient or inefficient community supervision or support, and parole processing delays or denials. States have begun to implement promising responses to these drivers, such as enhanced community treatment options for substance abuse and mental illness, risk and needs assessments, accountability measures, good time and earned credits, and intermediate and graduated sanctions. As of January 2014, the 17 states participating in JRI were expected to see a 0.8 to 25.0 percentage point reduction in the growth of prison populations from 2009 to 2020, as compared with expected growth in the absence of JRI reforms. Projected JRI cost savings are attributable to averted operating costs as a result of incarcerating a smaller population and averted construction costs as a result of not having to build new facilities to incarcerate larger justice system populations.

FIGURE 3

JRI Model



### Aging Behind Bars: Trends and Implications of Graying Prisoners in the Federal Prison System

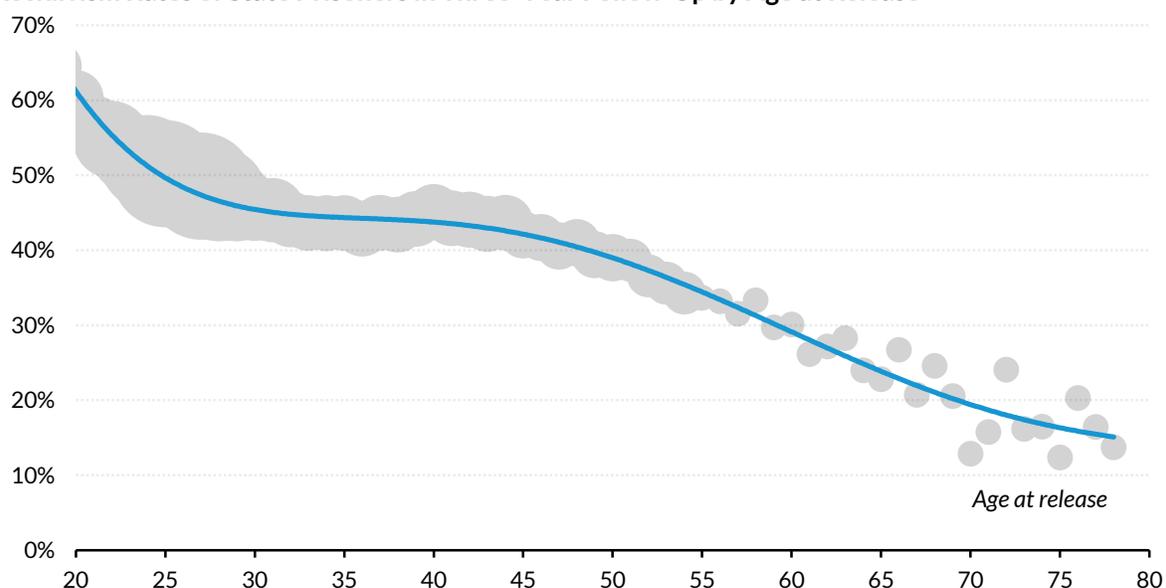
*KiDeuk Kim and Bryce Peterson | September 2014*

The aging of the federal prison population has accelerated since the early 2000s, and the proportion of prisoners over the age of 50 is expected to increase at a considerable rate over the next five years. Although this report focuses on the aging of federal prison populations, aging prison populations are an issue in state correctional systems as well. The Justice Policy Center conducted an analysis of the aging population in federal prisons, using data from the federal Bureau of Prisons through the Federal Justice Statistics Program. Projections indicate that prisoners age 50 and older could make up nearly 28 percent of the federal prison population by FY 2019, an increase of 10 percentage points since FY 2011. Aging prisoners impose an additional fiscal burden on a wide range of prison operations, including medical supplies, welfare services, treatment, and training. If older prisoners cost three times more than younger prisoners (a conservative estimate), the per person cost of providing care and programs in federal prisons would be approximately \$9,000 for those younger than 50 and \$27,000 for those age 50 and older. The risk of recidivism, moreover, declines with age, and there will come a time for older prisoners when an additional year of prison time no longer yields a meaningful reduction in the risk of recidivism (figure 4). It may be possible for the federal government and states to reduce the population

of elderly prisoners without compromising public safety. Policy and research recommendations for addressing this potentially costly demographic trend include (1) monitoring the growth of the older prisoner population; (2) developing an empirically driven definition of older prisoners and using data to identify the age threshold at which older prisoners pose minimal risk of recidivism; (3) expanding data-driven knowledge on older prisoners, such as recidivism rates and operational costs; and (4) developing cost-effective management plans for all aging prisoners, which may include assessment and screening tools, preventive health care, and early release mechanisms.

**FIGURE 4**

**Recidivism Rates of State Prisoners in Three-Year Follow-Up by Age at Release**



### The Processing and Treatment of Mentally Ill Persons in the Criminal Justice System: A Scan of Practice and Background Analysis

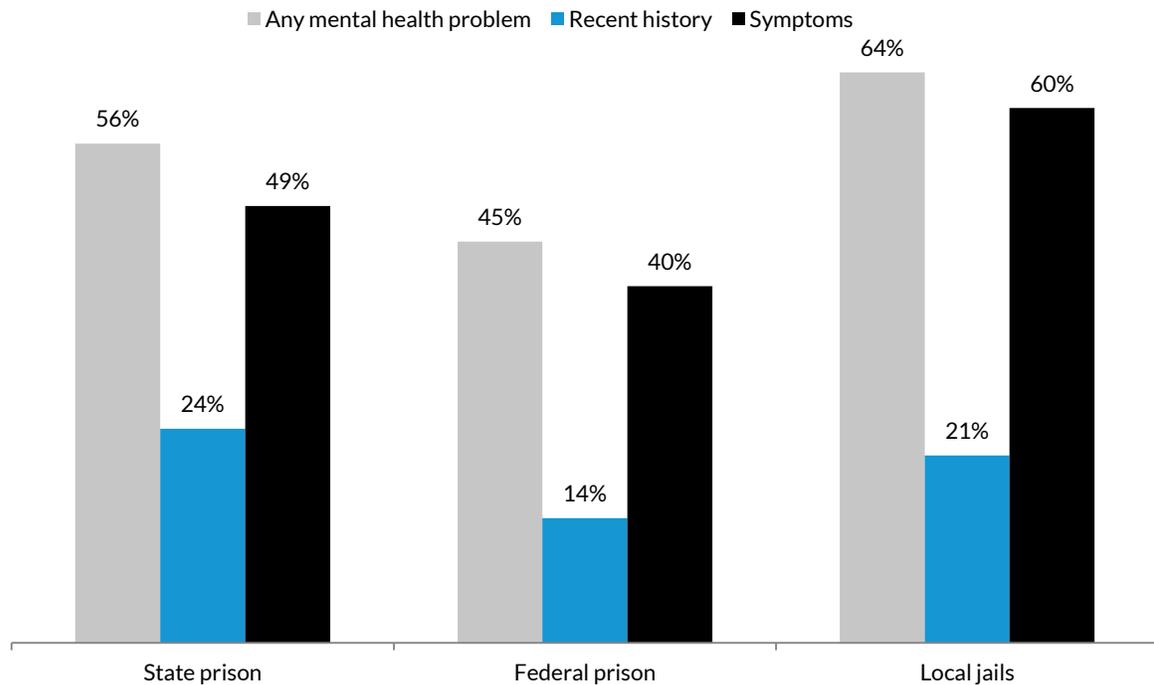
*KiDeuk Kim, Miriam Becker-Cohen, and Maria Serakos | April 2015*

An estimated 56 percent of state prisoners and 64 percent of jail inmates have a mental health problem (figure 5). Inmates with mental illness contribute to higher spending in the correctional system because of their more complex medical needs and their higher rates of recidivism. This report presents program and policy solutions to help reduce the number of inmates with mental illness in state correctional facilities. The report discusses evidence on the efficacy of diversion programs, such as mental health courts. It also discusses models for reentry programs that focus on continuity of care and providing access to a range of services pre- and post-release. An evaluation of a California program found that receiving one or more contacts with the parole outpatient clinic yielded cost savings of \$4,890 per parolee, and an evaluation of a program in Washington State found that the program reduced

recidivism and returned \$1.64 in benefits for every dollar spent. The report also discusses Medicaid enrollment at the time of jail release, pre-conviction and court policies, sentencing and incarceration policies, and probation and parole policies. Though empirical research has not been able to quantify the exact cost to house and treat inmates with mental illness in correctional facilities, mental health care is likely one of the major contributors to growth in correctional health care costs, which, according to the National Association of State Budget Officers, grew 10 percent annually from 1998 to 2001.

FIGURE 5

**Percentage of Inmates with Mental Health Problems**



**Prison Inmates’ Prerelease Application for Medicaid: Take-up Rates in Oregon**

*Kamala Mallik-Kane, Akiva Liberman, Lisa Dubai, and Jesse Jannetta | August 2014*

Before ACA Medicaid expansion, few states provided Medicaid access to childless adults, making the program inaccessible to many adults released from prison. To examine the value of Medicaid expansion, Urban Institute researchers analyzed data from Oregon’s pre-ACA Medicaid program, one of the few states that did provide state-funded Medicaid coverage through a waiver. The program gave inmates the chance to enroll in Medicaid before their release from prison, and Urban performed an evaluation to determine whether participating inmates successfully gained coverage following their release into the community. The researchers found that these inmates invited enrolled at similar rates to the general population and were more successful in obtaining coverage than inmates who were only invited to

apply for Medicaid following their release from the correctional facility. Moreover, inmates whose application process straddled their release had lower enrollment rates, which was primarily the result of missing the program's application deadline. The majority of inmates who participated in Oregon's pre-release application process had substance abuse or mental health treatment needs. This suggests that facilitating pre-release enrollment in health insurance may be an especially important mechanism for ensuring continuity of care among a high-need and high-risk population. Under Medicaid expansion, a large population of inmates formerly ineligible for Medicaid will now become eligible for Medicaid upon release. Oregon's expansion of Medicaid under the ACA eliminates both the challenging two-stage process and the application deadline that created barriers to enrollment for some inmates. These changes should facilitate a more effective process for enrolling inmates as they are released. Enrolling prison inmates in Medicaid before their release from the correctional facility results in higher rates of health care coverage post-release, with the potential to enhance continuity of care, reduce recidivism rates, and produce cost savings for states. Additional findings about the impact of Medicaid access on recidivism and other reintegration outcomes are expected in 2016.

### Improving Recidivism as a Performance Measure

*Ryan King and Brian Elderbroom | October 2014*

To ensure that criminal justice policy reforms produce positive and sustainable impacts over time, states must incorporate ongoing performance measurement into their implementation strategies. Public agencies and lawmakers frequently employ recidivism as a measurement of correctional success. However, recidivism is typically reported in a way that is too broad to help lawmakers draw any meaningful policy conclusions. Employing findings from recent literature as well as Urban's experience providing technical assistance to JRI sites, this paper proposes four steps to make recidivism a more meaningful measure of correctional program success. First, states should use multiple measures of success, in addition to the statewide rate, such as desistance, time to failure, crime severity, and behavior changes. Second, states should develop protocols in data collection to ensure that data are consistent, accurate, and timely, like assigning unique identifiers, linking data across criminal justice agencies, developing long-term records, collecting contextual information, and updating changes in status. Third, states may consider also accounting for the underlying composition of the population in its analysis. By controlling for the factors that predict reoffending, analysts can create "risk-adjusted" recidivism rates that account for the underlying composition of the population and allow for more accurate comparisons across groups and over time. Fourth, in disseminating the information, states may consider packaging the findings to maximize impact and get the results into the hands of decisionmakers. Reporting on a variety of recidivism measures and summarizing findings for key policymakers are crucial steps to inform decisionmaking. The specific metrics will vary from state to

state, but this report provides a blueprint for states to expand beyond system-level trends, using results to inform decisionmaking and improve outcomes as well as help ensure fiscal sustainability.

## Additional Reading

### **The Justice Reinvestment Initiative: Experience from the Local Sites**

*Lindsey Cramer, Samantha Harvell, Dave McClure, Ariel Sankar-Bergmann, and Erika Parks | November 2014*

### **The Justice Reinvestment Initiative: Thinking Local for State Justice Reinvestment**

*Elizabeth Davies, Samantha Harvell, and Lindsey Cramer | March 2015*

### **Lessons from the States: Responsible Prison Reform**

*Nancy La Vigne | July 2014*

### **Reducing Harms to Boys and Young Men of Color from Criminal Justice System Involvement**

*Akiva Liberman and Jocelyn Fontaine | February 2015*

### **Labeling Effects of First Juvenile Arrests: Secondary Deviance and Secondary Sanctioning**

*Akiva Liberman, David S. Kirk, and KiDeuk Kim | February 2014*

### **Who Pays for Sexual Assault Medical Forensic Exams? It is Not the Victim's Responsibility**

*Janine M. Zweig, Lisa Newmark, Megan Denver, and Darakshan Raja | May 2014*

### **Sexual Assault Medical Forensic Exams and VAWA 2005: Payment Practices, Successes, and Directions for the Future**

*Janine M. Zweig, Lisa Newmark, Darakshan Raja, and Megan Denver | April 2014*

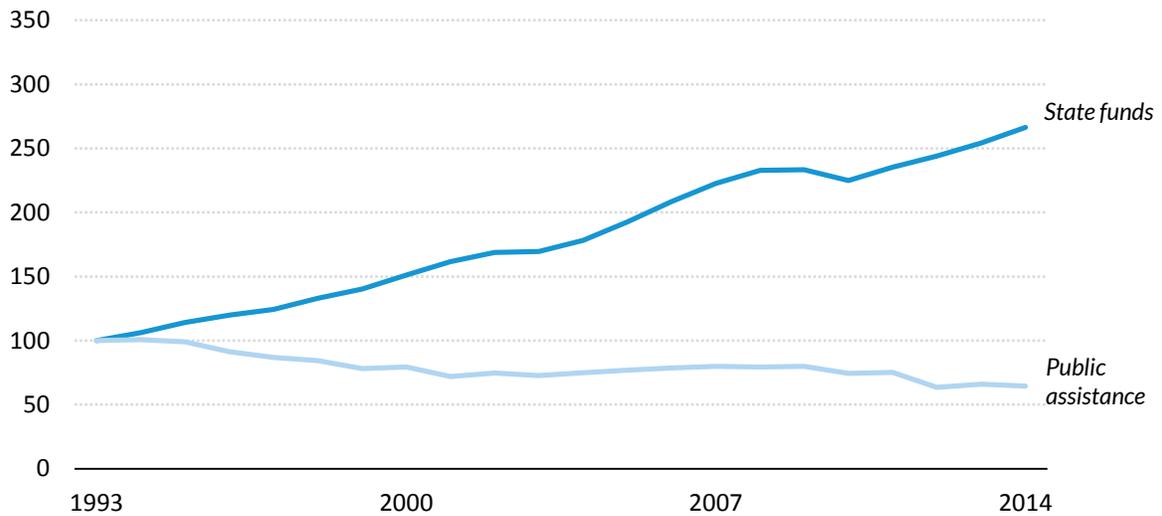
# Social Safety Net Programs

Social safety net spending has declined from 3.6 percent to less than 1.0 percent of state-financed expenditures (figure 6).<sup>4</sup> Federal funds dominate the financing of social services through Temporary Assistance for Needy Families (TANF), Supplemental Nutritional Assistance Program (SNAP), and other programs. However, state and local governments administer the programs and match funds in many instances. State and local budget offices and program administrators, therefore, have an interest in making these programs run more efficiently and ensuring recipients benefit from the programs.

FIGURE 6

## Growth in State and Safety Net Program Spending

Index 1993 = 100



Source: National Association of State Budget Officers.

Notes: State funds refer to general and other state funds. Public assistance funds are 1 percent of state funds in 2014.

## Web Tools and Interactive Features

The [Safety Net Almanac](#) brings together information about government programs that serve people in need.

The [Net Income Change Calculator \(NICC\)](#) can show what happens to benefits when a family's income changes. An increase in the minimum wage, for example, may result in lower needs-based

benefits for some program recipients as well as fewer people qualifying for benefits, reducing state expenditures.

The [CCDF Policies Database](#) produces a comprehensive, up-to-date database of child care subsidy policies for the 50 states, the District of Columbia, and the US territories and outlying areas. The database contains hundreds of variables designed to capture the Child Care and Development Fund (CCDF) policies across time.

The [Welfare Rules Database](#) is the primary source of data on state TANF policies nationwide, providing a detailed, longitudinal account of the changes in welfare rules in all 50 states and the District of Columbia.

## Key Reports

### [Understanding the Rates, Causes, and Costs of Churning in the Supplemental Nutrition Assistance Program \(SNAP\)](#)

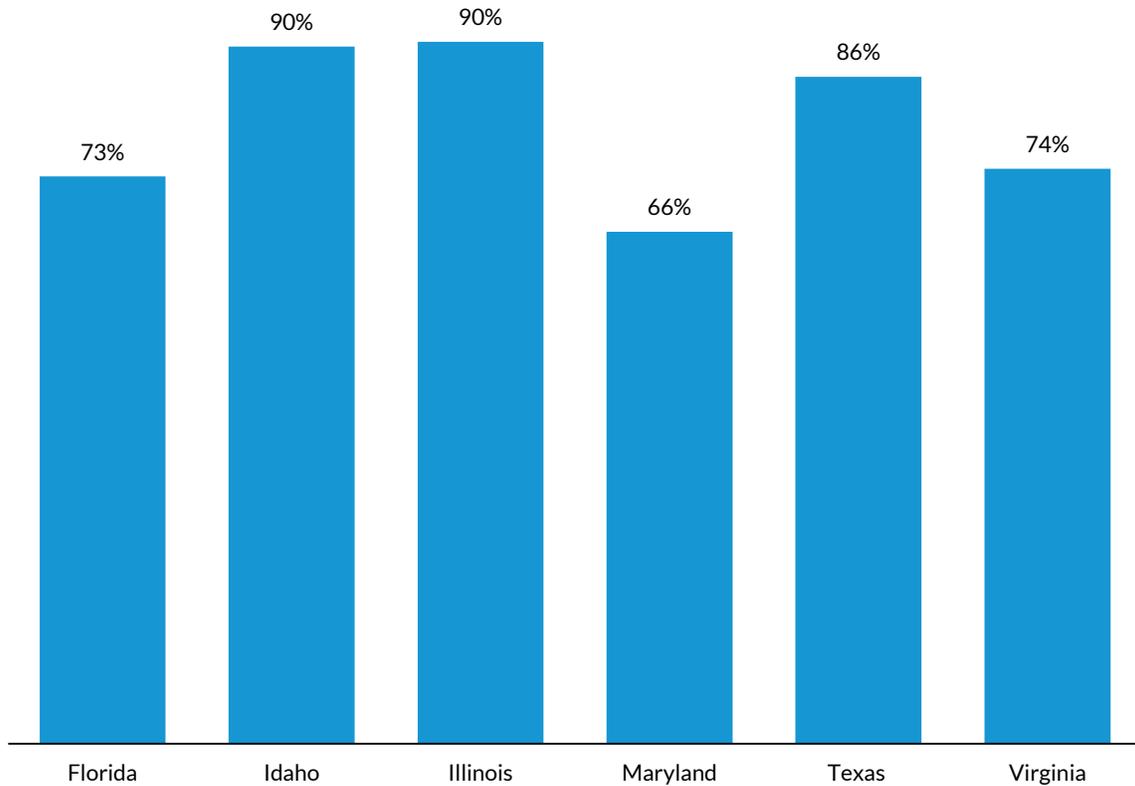
*Gregory B. Mills | February 2015*

Churn in SNAP—when a household receiving SNAP exits the program and then re-enters within four months—can unduly disrupt benefits for families and impose unnecessary administrative costs on states. In his testimony before the US House Committee on Agriculture, Subcommittee on Nutrition, Urban Institute expert Gregory Mills discusses the causes and costs of churn in the SNAP program. Urban conducted a study on SNAP churn using data from 2009 to 2012 in six states: Florida, Idaho, Illinois, Maryland, Texas, and Virginia. The study found that, though some churn is attributable to income changes that appropriately affect household benefit eligibility, a large portion is the result of procedural difficulties that participants experience during the recertification or interim reporting process. For 66 to 90 percent of churning households, their exit from the program occurs at the time of scheduled recertification or a required interim report (figure 7). Moreover, approximately 33 to 50 percent of all churning households are eligible for benefits while off the program. Reducing churn reduces administrative costs to states, since reopening a case for a churning family requires two to three times the casework needed for a simple recertification. The estimated annual certification costs associated with churn ranged from \$0.1 million in Idaho to \$6.0 million in Illinois, totaling an estimated 1 to 4 percent of total certification costs in the states studied. Moreover, the annual amount of SNAP benefits forgone by churning households ranges from \$2.2 million in Idaho to \$108.2 million in Florida. Some solutions to address churn, proposed by state SNAP administrators, include (1) aligning recertification dates for SNAP, TANF, and Medicaid; (2) eliminating face-to-face interviews for

recertification; (3) using call centers to handle routine client communications; and (4) allowing a 30-day grace period to families who fail to provide required documentation.

FIGURE 7

**Among Cases that Churn, Percentage that Churn at Recertification or Required Interim Report**



Source: Urban Institute tabulations of state administrative data for FY 2011.

**Assessing the Merits of Photo EBT Cards in the Supplemental Nutrition Assistance Program**

*Gregory B. Mills and Christopher Lowenstein | March 2015*

A case study of Massachusetts’s photo EBT card program, used to deliver SNAP benefits, suggests that photo EBT cards are not a cost-effective way to reduce SNAP trafficking. The Urban Institute interviewed stakeholders in Massachusetts about the state’s 2013 implementation of the photo EBT program, analyzed program cost estimates provided by the state, and reviewed data on SNAP trafficking. In this report, the authors estimate that SNAP trafficking in Massachusetts imposes a cost of \$5 million to \$9 million annually in the form of illicit income trafficked to colluding retailers or other receiving parties. According to previous estimates from the state, the annual cost of the photo EBT card

program is approximately \$4 million to \$5 million, suggesting that a photo EBT card program would have to reduce SNAP trafficking by approximately 50 percent or more to be cost-effective. The authors suggest that achieving this rate would be highly implausible given the lack of evidence that photo EBT cards change retailer or consumer behavior or reduce fraud in meaningful ways. During interviews, client advocates and retail industry stakeholders in Massachusetts explained that SNAP retailers would typically not check the photo ID on the EBT for practical and legal restrictions. For example, there is a federal program requirement that retailers treat SNAP and non-SNAP customers equally, which would necessitate that retailers check both the ID of EBT customers and other customers paying with a debit or credit card. Second, there is a legal requirement that all household members be allowed to access household SNAP benefits, negating the practical function of the photo ID if a household member not pictured on the card must be allowed to access benefits. Perhaps most importantly, most EBT card trafficking occurs when a colluding retailer purchases the SNAP benefits from a client, and so a photo ID would theoretically do nothing to deter retailers willfully engaging in fraudulent EBT transactions. SNAP trafficking made up only 1.3 percent of total SNAP benefits in 2009–11. This report finds that the program is not cost effective and can place unnecessary burdens on clients who are trying to access their program benefits.

## Review of Budgetary Policies and Practices in the Massachusetts Subsidized Child Care System

*Julia B. Isaacs and Michael Katz | December 2014*

Early child education and access to affordable child care are crucial to a state's workforce development strategy, but accurate forecasting of enrollment and participation is difficult. This report summarizes findings from a review of budgetary policies and practices in Massachusetts's Department of Early Education and Care, synthesizing interviews with department staff, external stakeholders, and budget experts in other states and adding an analysis of recent spending and current forecasting models. The report provides a review of the department's budget forecasting using caseload projections and presents recommendations that may be applicable to social service programs in other states. It also identifies factors that increase the complexity of forecasting child care caseloads, many of which are common to budget forecasts in other government agencies. Based on the evaluation, there are six areas to improve the forecast: (1) keep the models simple, as adding external factors such as unemployment rates or demographic trends is unlikely to be beneficial; (2) redesign the forecasting models to put less reliance on the most recent month; (3) put greater relative emphasis on estimating policy shifts rather than maintenance costs; (4) continue to improve the quality of data used for modeling; (5) consider viewing some forecasting issues from the broader perspective of caseload management and service delivery; and (6) consider changing the structure of budgetary accounts to find a way of dealing with the

inevitable differences between projected and actual spending. The state legislature recently adopted an important recommendation from this report on restructuring the budgetary accounts in the appropriation for FY 2016.

### How Much Could Policy Changes Reduce Poverty in New York City?

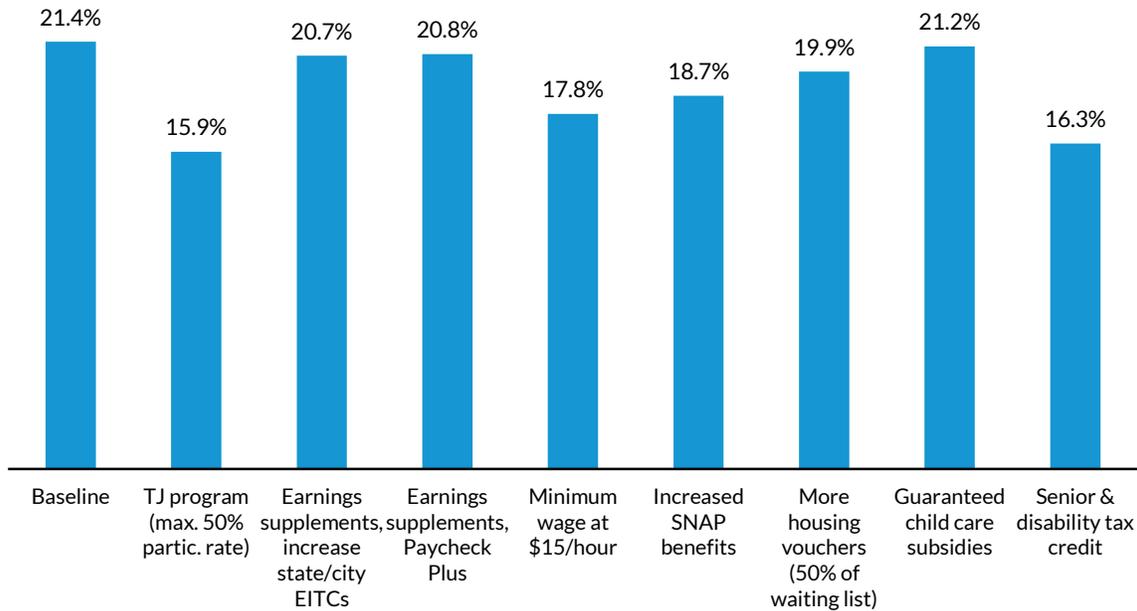
*Linda Giannarelli, Laura Wheaton, and Joyce Morton | March 2015*

The Urban Institute conducted an analysis of the hypothetical cost and effect of seven antipoverty policies in New York City: transitional jobs, earnings supplements, higher minimum wage, increased SNAP benefits, more housing vouchers, guaranteed child care subsidies, and a tax credit for seniors and people with disabilities. Urban performed this analysis using the TRIM3 (Transfer Income Model version 3) microsimulation model and the Supplemental Poverty Measure, a broad measure of poverty that takes into account the value of food benefits, housing benefits, and refundable tax credits in family income, as well as the amount that families pay in taxes and child care expenses. The most successful policy at reducing poverty was the transitional jobs program, which reduced the poverty rate more than 25 percent, declining from 21 to 16 percent (figure 8). Similarly, the tax credit for senior citizens and people with disabilities also reduced the poverty rate to 16 percent. Though each of these policies produced some decline in the poverty rate, they have a greater impact when implemented together as an antipoverty package. This package of policies reduced the poverty rate 44 to 60 percent. This analysis also measured the direct cost of implementing these policies, including the increased costs of benefits, transitional job wages, and refundable tax credits, offset by any increases in tax collections from higher wages. Total government costs for New York City—aggregated across all levels of government—ranged from an additional \$7.3 billion to \$9.1 billion, depending on the package of policies implemented. The individual policies with the largest costs were the transitional jobs policy and the tax credit for seniors and people with disabilities. The cost of the entire package of policies was equal to 1 percent of New York City's gross domestic product, and 9 to 12 percent of the city's operating budget expenditures.

FIGURE 8

**NYC Poverty Rate in the Baseline and Under Individual Policy Options**

*Using a modified Supplemental Poverty Measure definition of poverty*



**Notes:** EITC = earned income tax credit; partic. = participation; SNAP = Supplemental Nutritional Assistance Program; SPM = Supplemental Poverty Measure; TJ = transitional jobs.

## Additional Reading

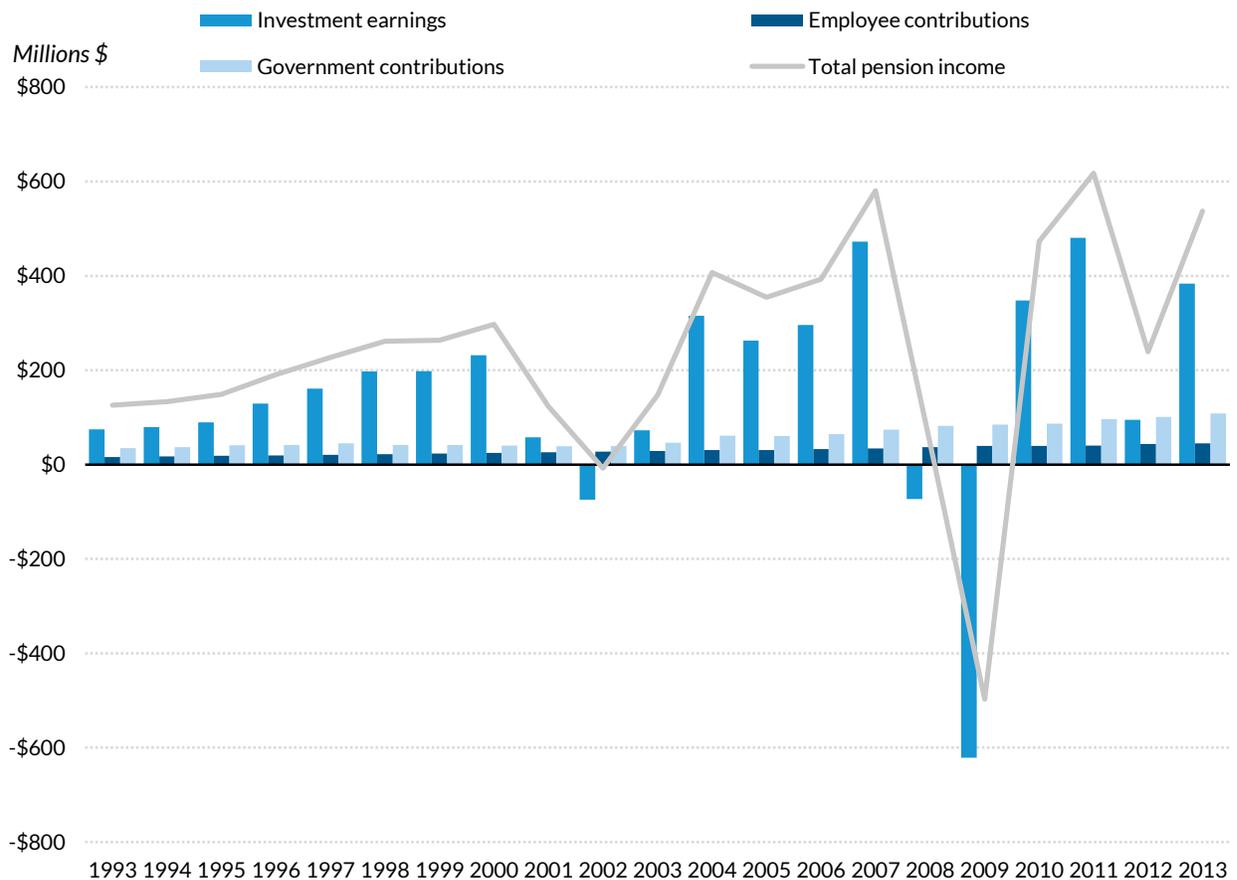
**Reducing Child Poverty in the US: Costs and Impacts of Policies Proposed by the Children’s Defense Fund**

*Linda Giannarelli, Kye Lippold, Sarah Minton, and Laura Wheaton | January 2015*

# Public Employee Pensions

Many states struggle with pension and other post-employment benefits. Large investment losses during the Great Recession and inadequate past contributions have left pension plans underfunded by at least \$800 billion and possibly as much as \$3 to \$4 trillion depending on modeling assumptions.<sup>5</sup> Over 71 percent of contributions to state and local pensions in 2013 came from investment income, not employee or employer contributions; but investment returns can vary greatly (figure 9). This section reviews research on how pension plan reforms are affecting funding as well as worker retirement security.

**FIGURE 9**  
**State and Local Government Pension Plan Revenues**



Source: US Census Bureau, 2013.

# Web Tools and Interactive Features

[Build your own](#) pension plan to see how policy levers affect the pension financing and benefits.

[The State of Retirement: Grading America's Public Pension Plans](#) is a pension report card and interactive map that allows state analysts to see how their pension plans stack up against other states.

## Key Reports

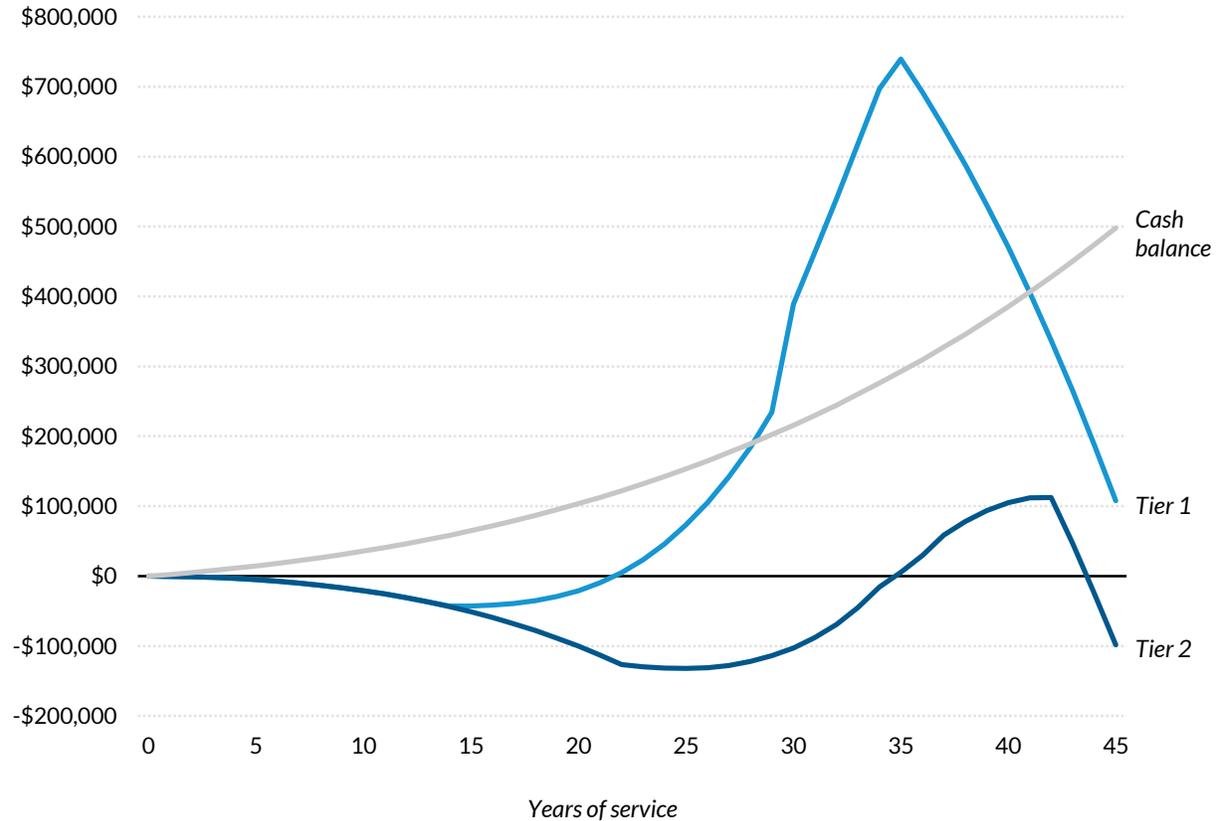
### [Could a Cash Balance Plan Benefit Illinois Public School Teachers?](#)

*Richard W. Johnson and Benjamin G. Southgate | April 2015*

A cash balance pension plan combines features of 401(k)-type plans and traditional pensions, with plan benefits expressed as an account balance, but investments are pooled, professionally managed, and guaranteed some minimum return. The Urban Institute conducted a study on a proposed cash balance pension plan for public teachers in Illinois and found that 72 percent of Illinois public school teachers hired before 2011—and 56 percent of those with five or more years of completed service—would fare better in a cash balance plan, even though the plan would be no more costly to taxpayers than the existing plan. The distribution of pension benefits under Illinois's current two-tier plan is uneven, with teachers who join the state payroll at relatively young ages and who stay for less than 25 years receiving little from the plan. Overall, 66 percent of newly hired teachers and 47 percent of teachers who complete at least five years of service would lose money by participating in the tier-1 plan. Similarly, 84 percent of all newly hired teachers and 74 percent of teachers who complete at least five years of service lose money by participating in the tier-2 plan. Urban calculated the effects of switching to a cash balance plan, modeled after a proposal from an Illinois state lawmaker, and adjusting contribution rates to bring costs into alignment with current state pension costs. This report finds that the proposed cash balance plan would generate higher lifetime benefits, net of teacher contributions, for all age-25 hires in tier 2 and for all age-25 hires in tier 1, except for those teachers retiring with between 29 and 40 years of completed service (figure 10). The cash balance plan would relieve taxpayers from bearing the entire investment risk of the pension, limit uncertainty in projecting future pension obligations, and distribute pension benefits more fairly than the existing plan. This would better promote retirement security for both long- and short-term teachers and impose no additional cost to the taxpayer. The cash balance pension plan, therefore, may be one option for states to reform their struggling public pension systems.

FIGURE 10

**Expected Value of Lifetime Pension Benefits Net of Employee Contributions for Tier 1, Tier 2, and the Proposed Cash Balance Plan**



Source: Authors' calculations based on plan documents and actuarial reports.

Notes: All monetary figures are in constant 2014 dollars. Estimates assume that investments earn 8 percent per year and the annual inflation rate is 3.25 percent, the rates adopted by the teacher retirement system.

## Reforming Government Pensions to Better Distribute Benefits

Richard W. Johnson | April 2015

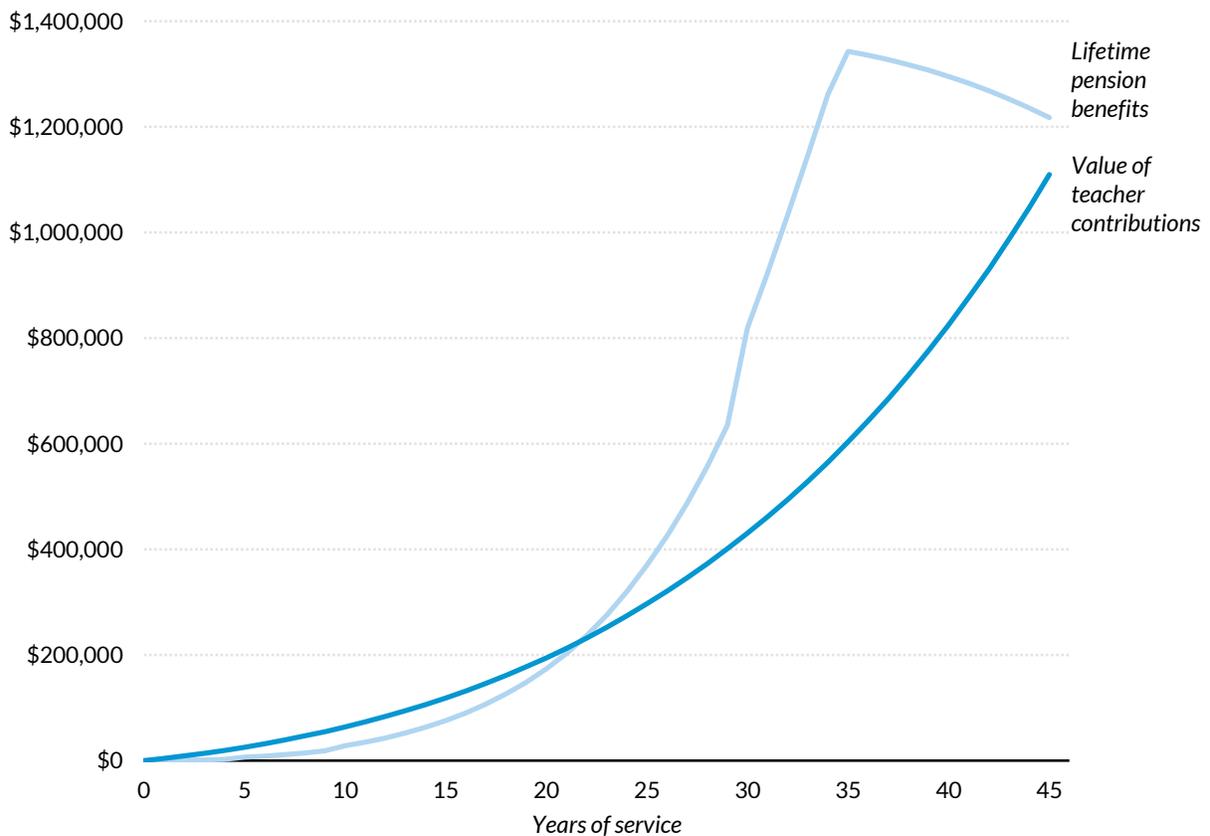
Financial concerns over the sustainability of public pensions have driven efforts to redesign public pension plans across a number of states in recent years. Most traditional pension plans provide little retirement security for employees who spend less than a full career in public service; the plans also penalize older workers, whose lifetime benefits are reduced if they remain on the job past the plan's retirement age, encouraging them to retire prematurely. Most traditional pensions plan designs unevenly distribute benefits to workers; benefits are often dependent upon what age employees join the plan at and how long they remain in the plan. In many cases, employees may receive different levels of benefit based on these factors, even if they have worked the same number of years. There are

alternatives that would produce a fairer benefit distribution and contribute to retirement security for all workers. An estimated 28 percent of state and local government employees are not covered by Social Security, which covers virtually all private-sector workers, making public pension plans important for the retirement security of state and local workers. In half of the state-administered final average salary plans in the Urban Institute’s pension plan database, participants must work at least 20 years before they get anything more than their contributions out of their pension plans. Only 6 percent of plans maximize lifetime benefits for age-25 hires at age 65 or older (figure 11 illustrates how Illinois’s plan benefits age-25 hires). Moreover, early retirement incentives are problematic, since the population is aging and the pool of younger workers to support retirees is stagnating. Some policy changes that this report discusses include changing the benefit formulas, reducing the vesting period, eliminating early retirement subsidies, or adding a defined contribution component to the plan.

**FIGURE 11**

**Expected Value of Lifetime Teacher Contributions and Pensions Benefits**

*Illinois public school teachers hired before 2011 at age 25*



## Additional Reading

### [Assessing Pension Benefits Paid under Pennsylvania's State Employees' Retirement System](#)

*Richard W. Johnson, Barbara A. Butrica, Owen Haaga, and Benjamin G. Southgate | September 2014*

### [How Long Must State and Local Employees Work to Accumulate Pension Benefits?](#)

*Richard W. Johnson, Barbara A. Butrica, Owen Haaga, and Benjamin G. Southgate | April 2014*

### [Are California Teacher Pensions Distributed Fairly?](#)

*Richard W. Johnson and Benjamin G. Southgate | April 2015*

### [Evaluating Retirement Income Security for Illinois Public School Teachers](#)

*Richard W. Johnson and Benjamin G. Southgate | July 2014*

### [How Will State and County Government Employees Fare under Kentucky's New Cash Balance Pension Plan?](#)

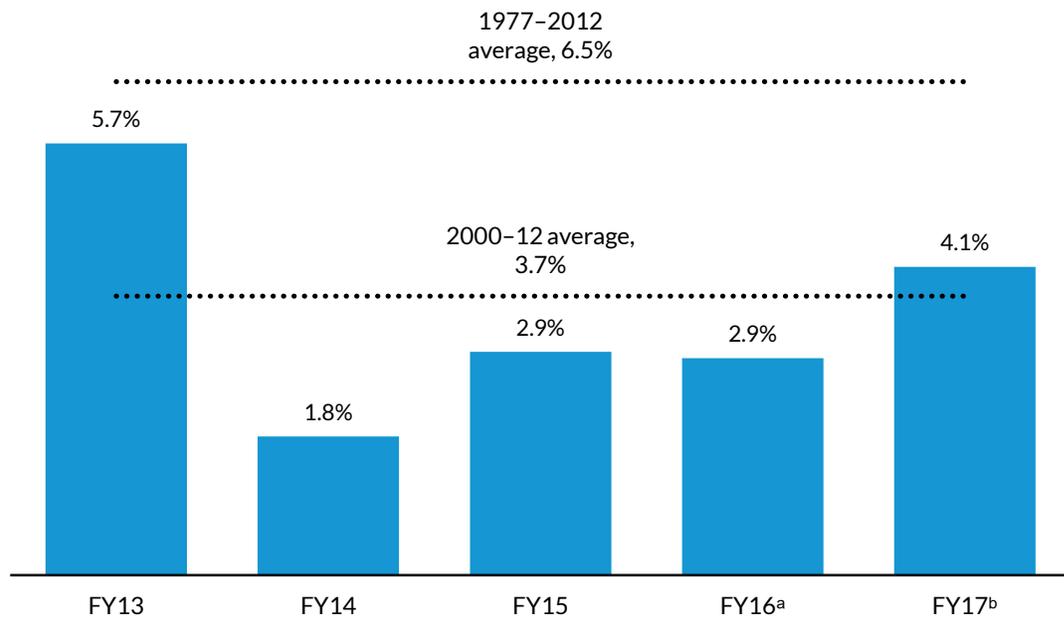
*Richard W. Johnson and Benjamin G. Southgate | April 2014*

# State Finance and Tax Policy

Many states are still struggling with sluggish revenue growth in the aftermath of the Great Recession, projecting future growth to be well below the long term average (figure 12). Meanwhile, cost pressures from Medicaid, corrections, and social safety net programs as well as pent up infrastructure and education demands have put enormous pressure on state budgets at a time when voters appear reluctant to increase taxes. These frictions will continue to complicate annual budget processes despite the national economic recovery.

FIGURE 12

Projected Change in Nominal State Operating Revenue, 2013-17



**Source:** State agency revenue reports compiled by Urban Institute; average growth calculated using Census Bureau Survey of State and Local Finances.

**Notes:** State operating growth is the unrestricted revenue used for state government operations. For most states this is called the general fund.

<sup>a</sup>48 states reporting.

<sup>b</sup>34 states reporting.

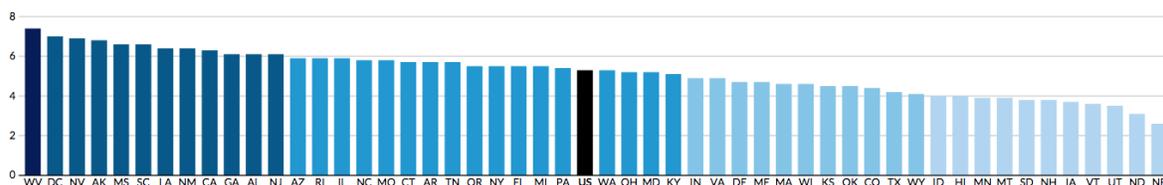
## Web Tools and Interactive Features

The [State Economic Monitor](#) tracks and analyzes economic and fiscal trends at the state level. Its interactive graphics highlight differences across all 50 states and the District of Columbia in employment, wages, housing, and taxes (see, for example, figure 13).

FIGURE 13

### Unemployment Rate

The national unemployment rate was 5.3 percent as of June 2015



The [State and Local Finance Data Query System \(DQS\)](#) allows flexible presentation of data from the Census of Governments State and Local Finance series, including detailed revenue, expenditure, and debt variables for the United States, each of the 50 states, and the District of Columbia for 1977–2012 (the latest year available; it will be updated when the Census Bureau releases 2013 data). Data are available by type of government (state, local, state and local totals, and local government detail) as well as in real or nominal dollars and on a per capita or fraction of personal income, general revenues or total expenditures basis.

## Key Reports

### [The Relationship between Taxes and Growth at the State Level: New Evidence](#)

*William G. Gale, Aaron Krupkin, and Kim Rueben | April 2015*

The effects of state tax policy on economic growth, entrepreneurship, and employment remain controversial. Using a framework that in earlier research generated significant, negative, and robust effects of taxes on growth, this report finds neither tax revenues nor top income tax rates bear stable relations to economic growth or employment across states and over time. Though the rate of firm formation is negatively affected by top income tax rates, the effects are small in economic terms. The report's results are inconsistent with the view that cuts in top state income tax rates will automatically or necessarily generate growth. The report also finds that tax revenues have unstable effects on employment over time and that marginal tax rates do not affect employment levels. Moreover, the

effects of taxes on growth vary dramatically across revenue sources. Incorporating marginal tax rates into this analysis does not change the results, and a marginal tax rate appears to have no effect on economic growth. These results hold even in the presence of government welfare and investment spending, although the report finds that welfare spending itself has a negative impact on growth, but investment spending does not have significant effects. The overall impression generated by these results is that state-level economic growth is not closely tied to state-level tax policy.

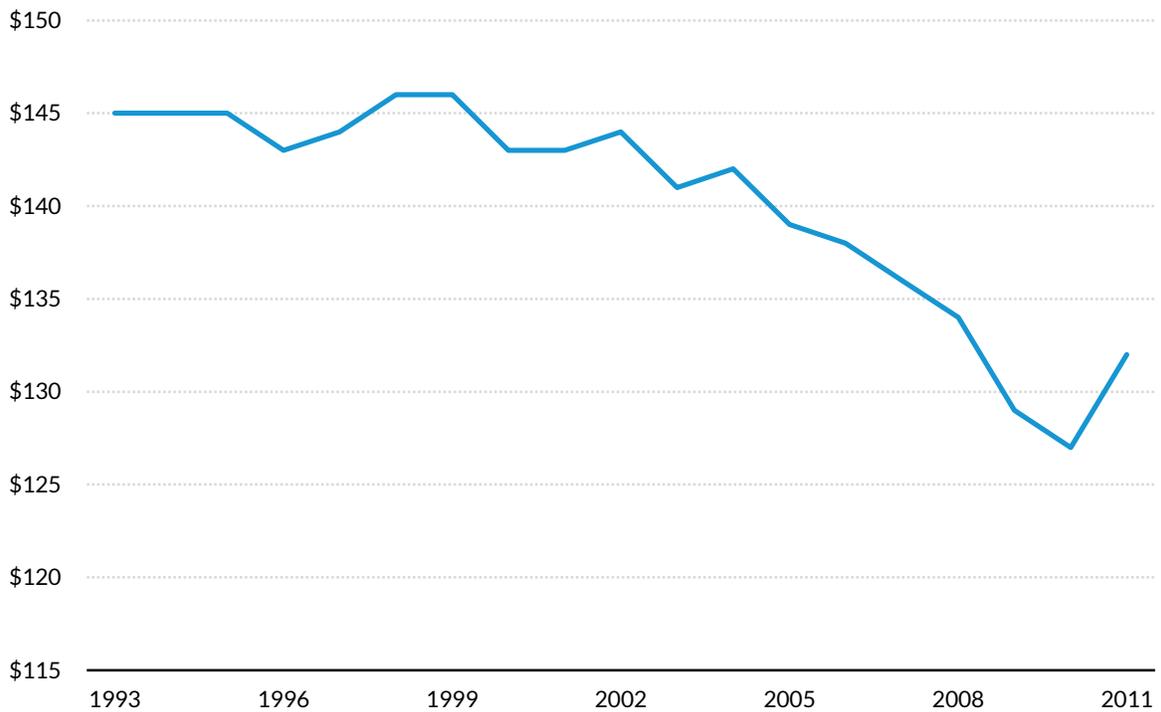
## Reforming State Gas Taxes: How States Are (and Are Not) Addressing an Eroding Tax Base

*Richard C. Auxier | November 2014*

Over the last 10 years, states have faced declining gas tax revenue, compromising their ability to adequately fund much-needed transit projects and highway maintenance. This report analyzes data on state gas tax revenue and examines different gas tax systems in several states. Declining tax revenue are in part attributable to the structure of the tax, which, in most states, is assessed on a per unit basis, failing to adjust over time for either inflation or the rising price of gas without legislative action. This problem is exacerbated by Americans driving less and purchasing more fuel-efficient vehicles, which erodes the gas tax base. As a result, on a real per-capita basis, which offers a measure of the pressures a growing population can put on roads, highways, and bridges, state and local motor fuel tax revenue declined 10 percent from \$145 in 1993 to \$132 in 2011 (figure 14). One way to reverse the decline in revenue is to index the tax to inflation. If state rates kept up with inflation, revenue would be 61.2 percent higher nationally. Another way to adjust the tax would be to change it to an *ad valorem* tax that rises with the price of gas. The downside to this method is that, if the volume of gas sold does not increase enough to fully compensate for the reduced rate, revenue would fall when the price of gas declines. The following states tie all or a part of their gas tax to the price of gasoline: California, Hawaii, Illinois, Kentucky, Michigan, Nebraska, North Carolina, and Pennsylvania. Lastly, Oregon and Virginia both recently added a vehicle-miles-traveled tax to their tax rate, which is another way of buoying gas tax revenues and funding for critical infrastructure projects.

FIGURE 14

Real per Capita State and Local Motor Fuel Revenue, 1993–2011



Source: US Census Bureau.

Temporary Taxes: States' Response to the Great Recession

Norton Francis and Brian David Moore | November 2014

Many states enacted temporary tax increases to plug budget holes and help maintain revenues for vital government services during the Great Recession. Less disruptive than immediate spending cuts, temporary taxes can help states meet balanced-budget requirements, especially during times of economic duress. This report examines data from 14 states and the District of Columbia that implemented temporary tax increases between 2008 and 2011. States have since allowed approximately half of these taxes to expire on schedule. The remaining measures were made permanent, modified and made permanent, or replaced with alternatives. Taxes were not the only tool that states used to meet balanced-budget requirements during this economic crisis, however. State general fund spending declined 3 percent in 2009 and 6 percent in 2010, the first back-to-back decline since 1979. Virtually every state used some combination of revenue increases and spending cuts to address budget shortfalls. States that use temporary measures have to be careful to have an appropriate timeframe: Illinois, for example, ran into budget problems when the temporary increase to the income tax reverted to its original level.

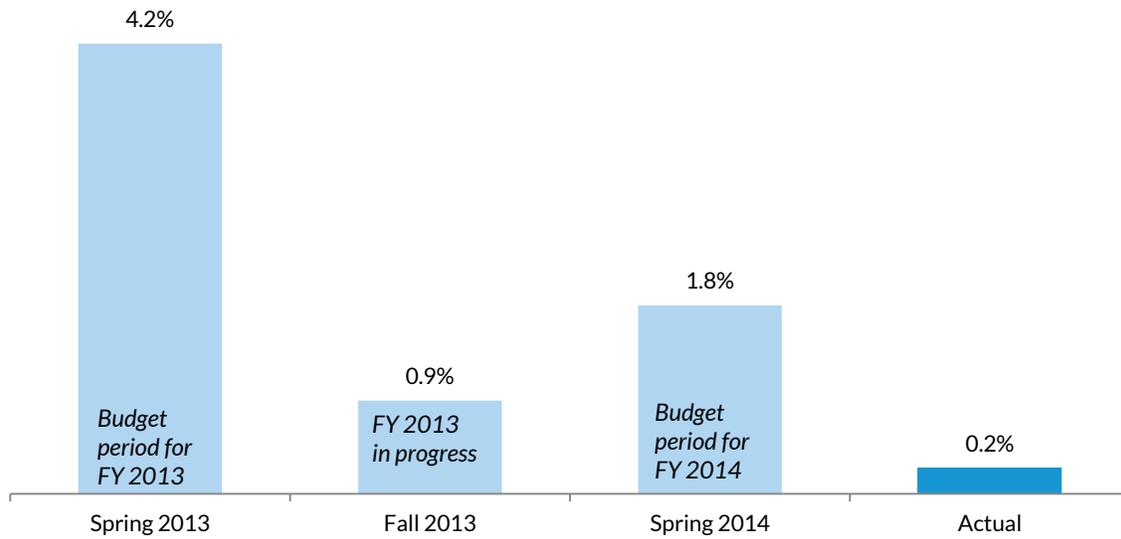
## Federal Tax Policy Uncertainty and State Revenue Estimates: Unraveling the April Surprise

*Norton Francis with Sarah Gault | March 2015*

Personal income tax receipts make up more than 33 percent of state tax revenue, and the receipts that states bring in during the April tax season significantly affect most states' abilities to provide services through the end of the year. However, end-of-year changes in the economy or in federal tax and spending policies can affect state income tax revenues, contributing to the "April surprise" phenomenon in which revenues fall short of or exceed the state's revenue forecasts produced six months earlier. In FY 2013, most state budget forecasts underestimated the revenues the state would eventually receive. In North Dakota, for example, actual revenues received were 121 percent higher than the original state budget forecast. This mismatch was preceded by uncertainty in federal tax policy that included an impending fiscal cliff, with the potential expiration of several tax cuts, which the federal government narrowly avoided in early 2013. In 2014, by comparison, most states overestimated tax revenues (figure 15). Mismatches between forecasts and actual revenues in 2014 resulted from a combination of economic conditions and federal policy changes that shifted taxpayer behavior, such as the introduction of the ACA surtax on high-income taxpayers, uncertainty about possible federal tax hikes, a mismatch between the federal policymaking timeline and the state budget cycle, and false signals about capital gains realizations derived from strong stock market performance in 2013. One lesson that states can take away from the missed estimates of 2013 and 2014 is to have workable rainy day funds available to address unexpected swings in revenue. States that capped their rainy day funds too low or did not divert enough of their 2013 surplus to rainy day savings faced shortfalls in 2014. Additionally, the fiscal cliff showed the impact of federal inaction on states' abilities to accurately forecast revenue streams—furthering the need for such funds.

FIGURE 15

State Forecasts of Personal Income Tax Growth from FY 2013 to FY 2014



Source: NASBO, *The Fiscal Survey of State*, for 2013 and 2014 spring and fall editions.

Notes: States without broad-based income taxes excluded. California excluded because of the size of its income tax.

## Additional Reading

### State and Local Backgrounders

*Urban Institute State and Local Finance Initiative*

### Tax Topics

*Urban Institute Tax Policy Center*

### Angel Investor Tax Credits

*Norton Francis | November 2014*

# Pay for Success and Performance Measurement

In recent years, governments have increasingly explored creative financing and budgeting tools that expand funding opportunities for social services while emphasizing accountability and sound performance management practices. Pay-for-success partnerships are not without risks and, like with any financial contract, policymakers need to be equipped to ask the right questions and implement appropriate monitoring and evaluation procedures. The Urban Institute is at the cutting edge of the emerging pay-for-success field as it works with clients and partners to integrate principles of performance management and measurement into pay-for-success financing agreements.

## Key Reports

### **Five Steps to Pay for Success: Implementing Pay for Success Projects in the Criminal and Juvenile Justice Systems**

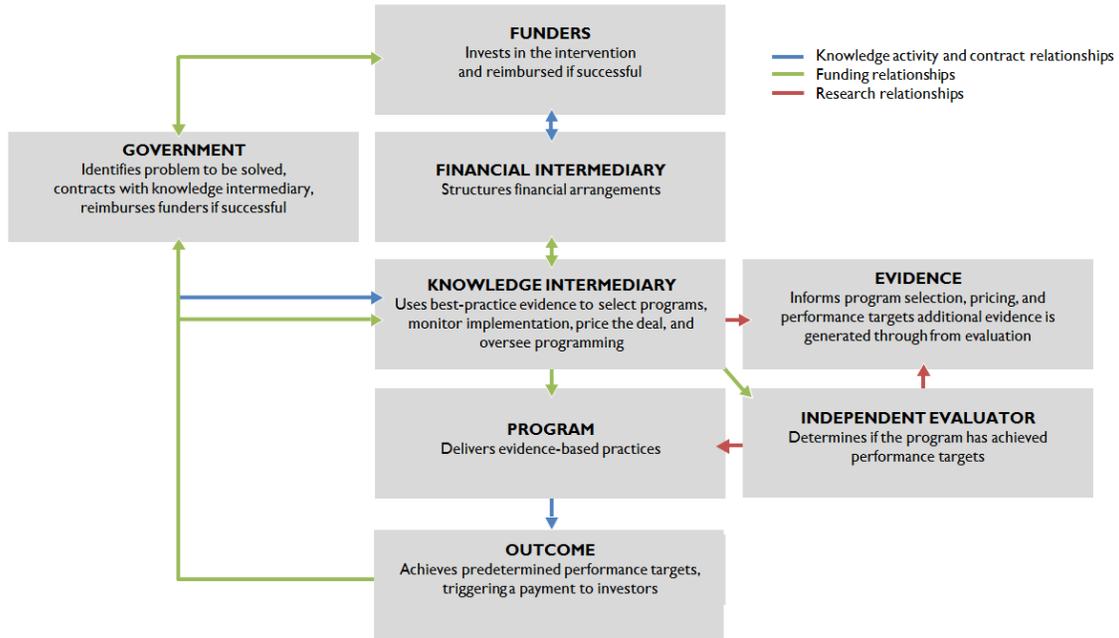
*John K. Roman, Kelly A. Walsh, Sam Bieler, and Samuel Taxy | June 2014*

Pay for success (PFS) is a new type of public-private partnership in which private investors finance a public social program with a specific performance goal. The private investor receives its principle and return only if the program achieves the agreed upon performance goal. The PFS framework is still new, and this report synthesizes existing literature and best practices knowledge to discuss potential benefits and drawbacks, existing models, and potential interactions with the state appropriations process (figure 16). This report also provides high-level recommendations to governments that are interested in implementing a PFS initiative. One of the potential benefits of PFS is that it shifts the risk of program failure from the government to the private investor, resulting in a new emphasis on performance measurement and a potentially more efficient use of public dollars. PFS initiatives can also reduce the political risk associated with changing the allocation of social programming funds and provide longer-term funding for social services than traditional public or philanthropic sources. As of 2014, California, Connecticut, Hawaii, Massachusetts, Maryland, New Jersey, and Pennsylvania had all either proposed or adopted some form of legislation to facilitate PFS projects and mitigate long-term risk for private investors. The report suggests a five-step model for governments interested in implementing a pay-for-success agreement: 1) value the PFS product, assess risk, and set performance targets; 2) develop the deal; 3) develop the logic model; 4) deliver service; and 5) evaluate the program.

This model addresses criticism that PFS does not produce promised results, burdening the state with additional costs, and provides a way to monitor private-sector influence on public goods.

FIGURE 16

**Actors and Relationships in a PFS Project**



**Transforming Performance Measurement for the 21st Century**

*Harry P. Hatry | July 2014*

This report discusses the transition from past performance measurement efforts to a more dynamic and useful set of tools for effective performance management by using program output and outcome measurements to continually improve public services. Based on a synthesis of existing literature, best practices, and industry expertise, the report provides a set of recommendations for states implementing performance-based budgeting systems, managing for results, or establishing pay-for-success agreements with private investors. Primary recommendations include (1) collecting feedback from key stakeholder groups, using logic models, and including post-service results indicators for programs; (2) analyzing performance data, such as comparing findings to benchmarks, and providing software that enables managers to effectively “drill down” on performance data; and (3) using performance measurement information, such as justifying decisions in budgets or strategic plans, for informing the basis of reports to legislative bodies or the public. Other topics considered are seeking regular feedback from customers; disaggregating outcomes by demographic and service characteristics (“data mining”); using “collective impact” concepts and “big data” that together enable data to be

extracted from multiple sources to better address complex issues such as juvenile delinquency and obesity; making use of the new profession of “data visualization;” and the expanding the use of outcome information as incentives for good performance (such as in performance contracting and its new, considerably more ambitious, pay-for-success models).

## Additional Reading

### [Sharing Risk: How Pay for Success Can Make Government More Efficient](#)

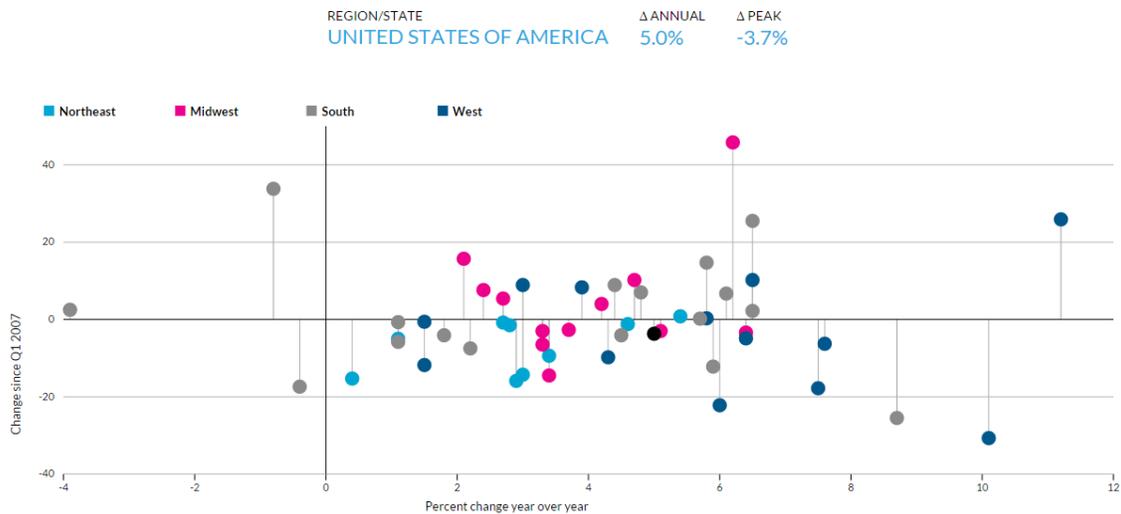
*John K. Roman, Kelly A. Walsh, Sam Bieler, and Samuel Taxy | June 2014*

# Demographic and Housing Trends

Demographic and economic changes are key drivers of state budgets. The changing number of children can directly affect state and school budgets, and population aging can also have large effects on state budgets through rising health care and pension costs. At the same time, housing prices still lag the pre-recession peaks in most states (figure 17). State analysts must consider these trends as they deliberate over next year's budget and as they make long-term plans.

FIGURE 17

## One-Year Change vs. Change Since Peak in Housing Prices



## Web Tools and Interactive Features

With [Mapping America's Futures](#), state analysts can examine regional population growth and see how their state population will change under different scenarios.

The [Mapping America's Rental Housing Crisis](#) tool illustrates, in every US county, the difference between the level of demand for housing that extremely low income households can afford and the supply and highlight the often large gaps between the two.

## Key Reports

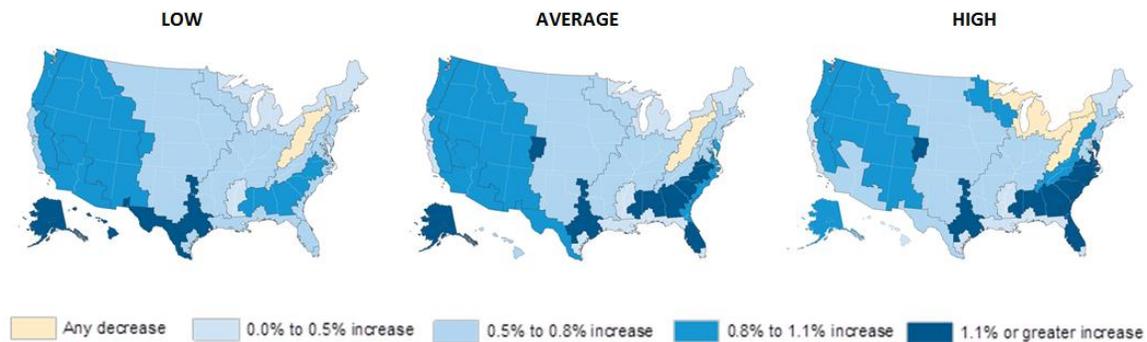
### Scenarios for Regional Growth from 2010 to 2030

*Rolf Pendall, Steven Martin, Nan Marie Astone, Austin Nichols, Kaitlin Franks Hildner, Allison Stolte, and H. Elizabeth Peters | January 2015*

Regional trends in fertility, mortality, and migration influence population growth and demographic composition, with important implications for state investments in public services. Using Urban’s new “Mapping America’s Futures: Population” tool, this brief examines population growth scenarios across 740 commuting zones and 24 regions. The authors estimate that, if recent birth, death, and migration trends hold, the Central Florida, Front Range, Piedmont, and Texas Triangle, regions of the country will experience the highest rates of population growth nationally (figure 18). The Great Lakes region, by contrast, will grow slowly and the Northeast Mountains will experience population decline. Given that fertility and mortality rates vary less than migration, this brief models regional population growth under three different migration scenarios from 2010 to 2030. The brief concludes that some regions are more sensitive to migration than others. For example, population decline in the Northeast Mountain region will become more pronounced if economic drivers cause an uptick in migration rates, pushing people toward higher growth areas in the South and Southwest. Some regions, such as the Texas Triangle, are less sensitive to migration because their growth is primarily driven by a young population with high fertility rates. The high-growth Central Florida region, by contrast, is more sensitive to migration, because its population is older and less diverse, making the influx of residents from other regions of the country a more significant component of its future population growth. Broad rates of population growth or decline, however, can mask important shifts in demographic subpopulations. For example, in the Great Lakes region, even in a low out-migration scenario, the non-elderly population will decline by 1.3 million by 2030. This decline, however, will be more than offset by an increase in the elderly population of 3.4 million—resulting in a small net population gain. Broad trends in net population growth, therefore, may obscure large changes within specific subpopulations, which have important implications for public service utilization and state budgets.

FIGURE 18

**Population Growth under Three Migration Scenarios  
2010–30**



**Children and Youth in an Aging America**

*Nan Marie Astone, Allison Stolte, Steven Martin, Kaitlin Franks Hildner, H. Elizabeth Peters, Rolf Pendall, and Austin Nichols | January 2015*

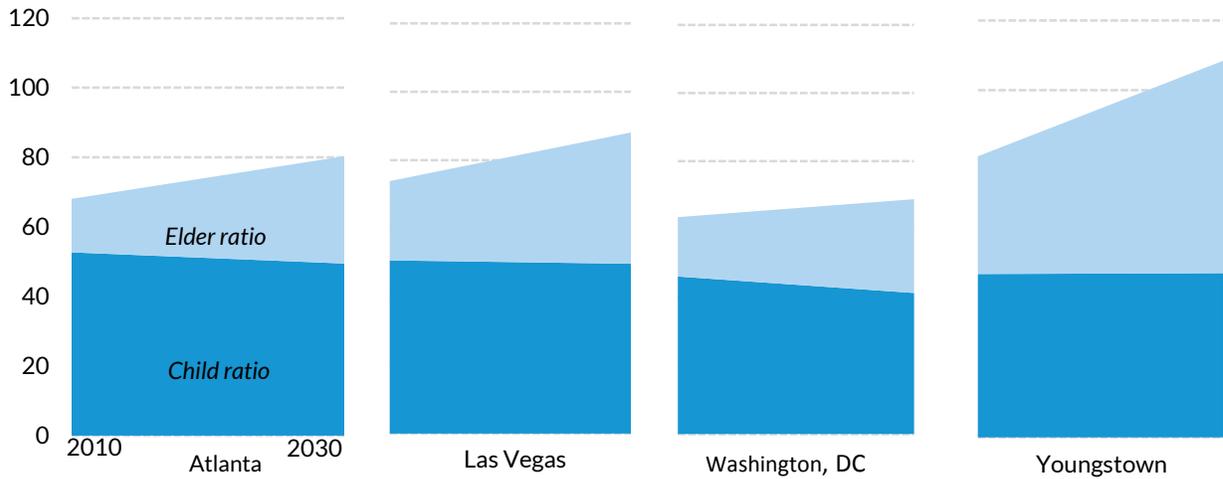
From 2010 to 2030, America’s elderly population will grow across all regions, while America’s child population will also continue to grow, but with more regional variation. This trend will challenge state and local governments to provide the necessary services to a growing, high-need elderly population, while maintaining education and other public investments for a growing population of children. Over the next 15 years, both the absolute number and proportion of elderly residents will grow across the country. Growth will be slowest in the Great Plains and Rio Grande Valley regions, and the highest in the Central Florida, I-81 Corridor, Northeast Corridor, Pacific, Southwest Triangle, and Texas Triangle regions. In the Great Lakes, Gulf Coast, Northeast Corridor, and the Northern New England, the youth population is projected to decline, while in the Cascadia, Central Florida, I-81 Corridor, Southwest Triangle, and Texas Triangle regions it is expected to grow. In many regions, the child ratio (i.e., number of children to the number of working-age adults) is higher than the elderly ratio (i.e., number of elderly to working-age adults), and, in many places, *both* of these ratios will increase between 2010 and 2030 (figure 19). These “dependency ratios” are important as they describe the generational balance between a productive adult labor force, which provides inputs into the tax and social insurance base, and the nonworking populations that consume the majority of public services and benefits. State and local investments are especially important for the young population, for whom state and local programs such as school expenditures and K–12 education provide the greatest share of support. The elderly, in comparison, derive significant benefits from federal programs like Social Security, Medicare, and Medicaid. In regions experiencing population growth, local and state governments must find ways to meet the service needs of both the younger and older populations. By contrast, regions with dwindling

populations will need to consider the economic and budgetary implications of a declining labor force combined with a growing elderly population.

FIGURE 19

**Change in Child and Elder Ratios**

2010 to 2030



**Headship and Homeownership: What Does the Future Hold?**

Laurie Goodman, Rolf Pendall, and Jun Zhu | June 2015

This report dives into the pace of household formation and homeownership attainment nationally and projects future trends. Trends in household formation and homeownership may be relevant to state budgeters designing housing support programs or changes to the state and local tax code that affect homeowners and renters. This report finds that household growth can be expected to be reasonably robust between 2010 and 2020 as the millennials form households, but it will taper off between 2020 and 2030. Between 2010 and 2030 household growth will be overwhelmingly nonwhite, and the number of senior households will expand dramatically. The homeownership rate, by contrast, will continue to decline. Though absolute number of homeowners will grow, because of net new household formation, the absolute number of renters will grow much faster. New renter households will outnumber new owner households both between 2010 and 2020 and between 2020 and 2030. The new homeowners will be disproportionately minority, especially Hispanic, and the homeownership gap between blacks and Hispanics is likely to grow. Moreover, the growing number of senior households suggests an urgent need for policies that allow seniors to stay in their homes as they age. There will also be significant demand for new rental housing construction as the last major burst of rental housing construction occurred in the early 1980s, when federal tax law encouraged the construction of hundreds of thousands of apartments. Since then, the Low-Income Housing Tax Credit program has

been one of the few sources of affordable new rental housing construction. Finally, disparities in home ownership for minority households suggest the need for a realignment of credit standards to more accurately reflect the financial capabilities of these groups. It also calls for more comprehensive policies addressing education, employment, criminal justice, and other issues which hinder economic security and asset building.

## Additional Reading

### **The Labor Force in an Aging and Growing America**

*Austin Nichols, Steven Martin, Nan Marie Astone, H. Elizabeth Peters, Rolf Pendall, Kaitlin Franks Hildner, and Allison Stolte | January 2015*

### **Evolving Patterns in Diversity**

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# Notes

1. See *State Expenditure Report: Examining 2012 – 2014 State Spending*, (Washington DC: National Association of State Budget Officers, 2014).
2. See NASBO, *State Expenditure Report*.
3. See NASBO, *State Expenditure Report*.
4. See NASBO, *State Expenditure Report*.
5. “State and Local Government Pensions,” Urban Institute, State and Local Finance Initiative, accessed August 2015, <http://www.urban.org/policy-centers/cross-center-initiatives/state-local-finance-initiative/projects/state-and-local-backgrounders/state-and-local-government-pensions>.

# About the Authors

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